

28 October 2024

## Thangamayil Jewellery Ltd – BUY

**CMP** : Rs. 2,268  
**Target Price** : Rs. 2,780  
**Upside** : 22.60%  
**Stop Loss** : Rs. 2,041 (Closing basis)

### Investment Thesis

- Thangamayil Jewellery Ltd. (TJL) operates through 59 company-owned and company-operated (COCO) stores and commands a strong market presence in the tier-II and tier-III cities of Tamil Nadu along with a dominant position in the Madurai market.
- The TJL brand is now very well known in the western and southern parts of Tamil Nadu. With incremental expansion being carried out in the same area after a lag of 7-8 years, given its under-penetrative nature, it can garner a run rate of Rs. 400,000/sq ft within 12-18 months of being launched.
- The company expects gross margins to improve by approximately 100bps from FY24 to FY27 due to increased sales of high-margin studded jewellery in metro and Tier 1 cities, along with focusing on enhancing the mix of value-added jewellery, taking advantage of economies of scale, reducing benefits provided under the Advance Purchase Scheme, and redeeming deposits collected through the Digi Gold app.
- Formalisation within the jewellery industry has sped up post-implementation of hallmarking norms with effect from June 2021. Moreover, import duty cut from 15% to 6% in the recent Union Budget in July 2024 is likely to add further cherry on the cake.
- In the last few years, TJL has stepped up on both Gold Metal Loan (GML) and advances. During FY23, it funded ~12% of inventory through GML and 26% through customer advances. It has fully utilised its GML limits as it is the cheapest source of capital at 2.3%.
- TJL experimented with 13 smaller format outlets called TMJL Plus to sell silver, MRP items, and lightweight gold ornaments. These outlets also served as collection centers for gold saving schemes. However, due to the success of an online application as an alternative to collection centers, 5 of the 13 outlets are being upgraded to full-fledged retail outlets for regular gold ornament sales.

### Financials

- TJL reported healthy growth in Revenue increasing by 27% YoY at Rs. 1,220 Cr. The EBITDA came in at Rs. 90 Cr up by 64% YoY with EBITDA margins at 7.4% (up by 210bps YoY). The PAT closed in at Rs. 57 Cr up by a stellar 84% YoY.

Particulars	FY21	FY22	FY23	FY24	FY25E	FY26E
Revenue (Rs in Crs)	1,819	2,193	3,153	3,827	4,516	5,284
EBITDA (Rs in Crs)	149	88	156	217	271	291
Adj. PAT (Rs in Crs)	87	39	80	123	135	148
Adj. EPS (Rs.)	31.60	14.07	29.10	44.91	49.44	53.99
PE Multiple (x)	70.1	157.4	76.1	49.3	44.8	41.0
RoE (%)	30.6	12.5	21.3	26.4	23.7	21.5

### Stock Data

Market Cap (Rs. Crs)	6,214
Market Cap (\$ Mn)	739.15
Shares O/S (in Mn)	27.4
Avg. Volume (3 month)	112,927.95
52-Week Range (Rs.)	2,650 / 1,140

### Shareholding Pattern

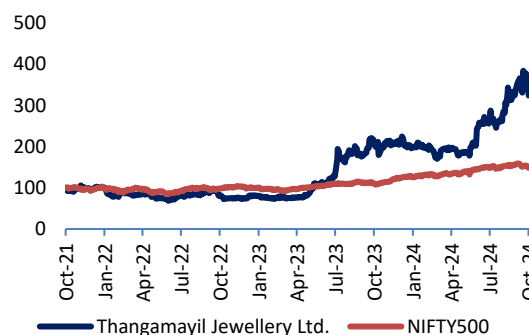
Promoters	61.28%
FIIIs	4.52%
Institutions	12.77%
Public	21.42%

### Key Ratios

Div Yield	0.47%
TTM PE	50.9x
ROE	28.0%
TTM EPS (Rs.)	44.16

### Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	(6.2)%	64.9%	59.3%
NIFTY500	0.2%	54.0%	24.2%



- Revenue for FY24 stands at Rs. 3,827 Cr growing by 21.4% YoY driven by strong retail volume growth by 11%, improved contribution from non-gold items and improvement in SSS (Same-store sales) by 23%.
- The company has planned to open eight mid-level retail outlets across Tamil Nadu and one flagship large outlet in Chennai in FY25. Increase in revenue from non-gold jewellery accounted for ~8% of its income in FY24.

## Key Business Highlights

- Thangamayil Jewellery Limited operates a chain of retail jewellery stores across several districts in Tamil Nadu, a state that has the largest share of India's total gold consumption. The company primarily deals with four product lines, i.e., Gold, Silver, Diamonds, and Platinum: the sale of gold being a predominant source of its income. TJL has also established four manufacturing units that employ in-house goldsmiths to craft designer jewellery, which are in vogue with the current trends in the marketplace.
- TJL maintains a very high focus on its inventory management where it has hired an Israel-based consultant – Goldratt, resulting in improved inventory turns and thereby predicting the right amount of inventory to be kept at a store – since their model enables a better understanding of the taste of customers in that region.
- In South India, which accounts for approximately 40% of India's total jewellery market, of which Tamil Nadu has a significant share of around 25%. TJL, a well-known jewellery brand, holds about 3% of the market share. It is recognized for its innovative designs and extensive retail network, consisting of 56 stores primarily located in tier II and III cities across the state. This strategic presence helps it tap rural income/investments typically parked in gold for wedding/investment needs, leading to sustained volume growth.
- TJL plans to increase store additions in FY25-27 after facing challenges in recent years. They aim to add approximately 30 stores during this period, including a flagship store in T. Nagar, Chennai, which is expected to open by January 2025. Smaller format stores will also be added in the city.
- Thangamayil positions itself as a "Value Jeweller," ensuring customer loyalty through "Everyday Low Prices." The majority of its customers belong to SEC B and SEC C, where price competitiveness is a significant advantage. Thangamayil has strong brand recall through Satellite Advertising targeting the Cauvery region and mainstream Chennai Market.

## Valuation

We believe TJL is a long-term player with stable profit growth and improved return ratios coupled with its expertise to operate in Tier II & III cities.

TJL is currently trading at a PE of 51x, higher than its industry PE of 38x, indicating that the company is valued at a premium valuation. This valuation is justified on account of its healthy growth momentum and improvement in inventory turns, which would strengthen its return ratios and liquidity position. The ROE / ROCE stands strong at 28% / 20%, respectively.

We are ascribing a **BUY** rating for Thangamayil Jewellery Ltd. with a **Target Price of Rs. 2,780** translating into an **upside of 22.60%**.

## Risk & Concern

- Sharp surge in gold prices.
- Any negative change in government policy impacting the growth of the industry.
- Continued period of high inflation impacting the disposable income of the masses.
- Delay in store addition or underperformance of stores in newer markets.

## Graphs & Charts

Figure 1: Net Sales Trend (Rs. In Cr)

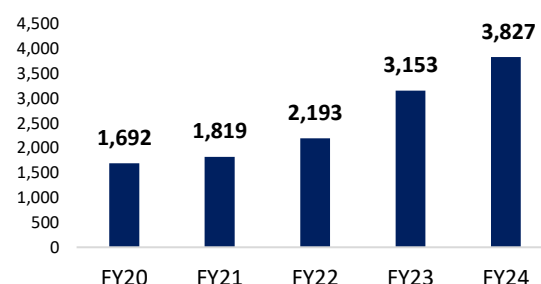


Figure 2: EBITDA & EBITDA Margin Trend

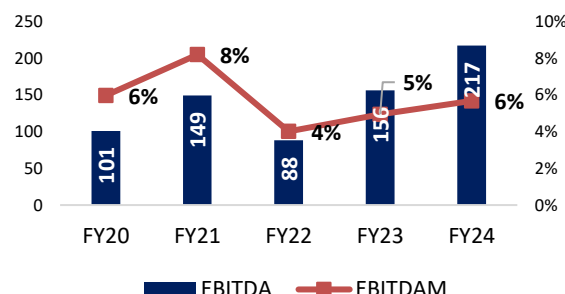


Figure 3: ROE & ROCE Trend

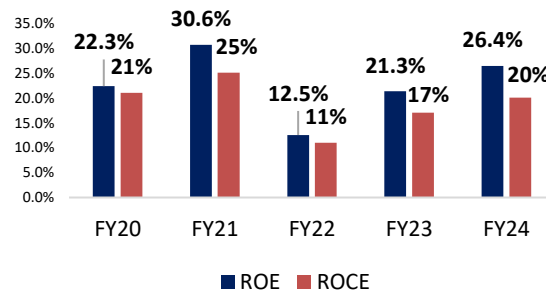
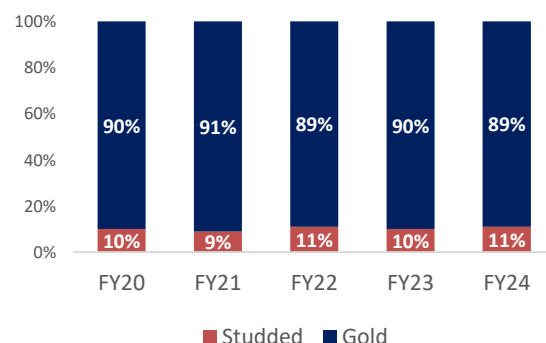


Figure 4: Studded vs. Gold Jewellery Mix



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